SUBMISSION TO THE STANDING COMMITTEE

ON HEALTH, WELFARE AND SOCIAL AFFAIRS

CONCERNING BILL C-131

"AN ACT TO AMEND THE OAS ACT (NO. 2)"

BY THE CANADIAN LABOUR CONGRESS

OPEIU225 DECEMBER 16, 1982

Mr. Chairman, Members of the Committee

On behalf of the Canadian Labour Congress we want to thank the Standing Committee on Health, Welfare and Social Affairs for affording us the opportunity to discuss Bill C-131 with you. We wish, however, that it was a happier occasion that was bringing us together.

We are sure that you are all aware that the Canadian Labour Congress expressed its views on Bill C-131 in a letter to all members of the House of Commons. We will review the main points raised in this letter momentarily. However, we want to begin by offering some more general remarks.

Bill C-131 gives legal effect to the proposal to cap the indexation of benefits under the Old Age Security Act. This proposal was first put forward in the budget speech of June 28th, 1982. In the budget speech this proposal was justified in purely fiscal terms; it was justified on the grounds that it would help to achieve a desired budgetary balance by trimming the Government of Canada's expenditures under the OAS program. It was not justified in terms of its impact on the structure of the Canadian pension system. Thus, while the subject matter of the Bill in front of you relates to a key element in Canada's pension system, the motivations underlying the Bill are purely fiscal.

Given the fiscal motivations that underlie the Bill, three comments of a purely fiscal nature are warranted. First, and most importantly, the Bill strikes us as the logical equivalent of a tax bill that is extremely unjust. It is the logical equivalent of a tax bill in the sense that its purpose is to raise the revenues required to finance job creation programs. It is extremely unjust because it is a tax that falls solely on people over 65. An overt and explicit tax of this sort could never be justified and we do not believe that the measure contained in C-131 is any more justifiable.

Second, the decision to impose this quasi-tax on the recipients of OAS who do not receive GIS benefits is being justified on the grounds that it will fall on the portion of the population over 65 who are not most in need. However, the tax will actually fall on people of modest means: single people with 1982 annual incomes as low as $8,600 and couples with 1982 annual incomes as low as $14,500. These are not wealthy people. It is incredibly ironic that people over 65 at these modest income levels are being hit with a new tax on the grounds that they do not need the full OAS benefit while nothing is being said about the tax exemptions for the elderly which actually provide benefits that increase with taxable income. This observation is not a plea for the termination of these exemptions. Rather it is a plea that we keep all forms of assistance for the elderly in perspective before we get carried away by the claim that the universal flat rate OAS provides benefits where they are not needed.

Finally, we view the attempt to save on OAS expenditures as part of an inappropriate fiscal policy as well as being bad pension policy. The one and a half million Canadians who are unemployed and the thirty per cent of our industrial capacity that lies idle will remain in that deplorable state as long as the Government of Canada insists on curbing people's ability to buy goods and services. The whole 6 and 5 campaign and Bill C-131 are part of a perverse fiscal policy that is lengthening and deepening the current recession.

These fiscal matters aside, capping the indexing of OAS benefits during 1983 and 1984 is bad pension policy as well, and we want to explain the reason why we believe that this is the case.

Public pension programs have developed throughout the industrialized world during the course of the 20th century and they have been successful in allowing people to have a period at the end of their lives when they no longer have to rely on income from employment in order to support themselves. Despite their wide variations in generosity and specific details, they rest on a common foundation that amounts to a compact among generations. Benefits are promised to the older generation, which has a right to expect that these promises will be kept, and the working age population contributes on the understanding that the arrangements that have been put in place will be maintained and provide them with a comparable degree of income protection in the future.

The capping of OAS indexing under Bill C-131 is in fundamental conflict with the foundation on which public pension plans operate. It clearly breaks a promise to Canada's current elderly - namely, the promise that the OAS program will provide benefits of a given real value. But not only does Bill C-131 break a promise to the current elderly, it raises doubts as to whether the arrangements that are now in place will be maintained for future generations of elderly Canadians. The fact that the Government of Canada feels free to reduce OAS benefits for reasons of short term fiscal expediency has the potential to breed a great deal of cynicism about the security of all future public pension benefits. In our view this is a very serious matter and constitutes sufficient grounds for rejecting Bill C-131.

There are, of course, other reasons why we oppose Bill C-131. With regard to these other reasons, we would remind you that during the past summer the Canadian Labour Congress provided all members of the House of Commons with a summary statement of our views on pension reform. In that document we expressed the view that all Canadians over 65 should be provided with indexed incomes above the poverty line and that arrangements should be put in place that would allow all middle and low income households to maintain their standard of living when income earners move from work to retirement. Moreover, we argued that these objectives should be met, as far as possible, without forcing people to rely on the income tested Guaranteed Income Supplement program. Our desire to minimize the

role of income-tested benefits stems, first and foremost, from our view that retirement incomes should not be treated as the products of charity. They should be treated as incomes to which people have earned rights based on the type of compact among generations mentioned above. In addition, we are concerned that income-tested benefits reduce the value of Canada Pension Plan benefits and private retirement incomes by fifty cents on the dollar. As a practical consequence, the value of participating in the CPP and/or saving for retirement is only half as great for low income earners as it is for higher income earners.

In relation to our objectives for pension reform, the provisions of Bill C-131 are a step backward. The proposal to combine the cap on OAS indexing with a compensating increase in the level of the maximum GIS benefits stemmed, no doubt, from a positive desire to protect the lowest income earners among the elderly from the effects of the cap on OAS indexing. Unfortunately, this proposal also raises the income level up to which some GIS will be payable and thereby spreads the net of income-tested benefits even further among the elderly. For the reason stated above, this would be unfortunate under any circumstance in the context of the Canadian pension system it is especially unfortunate. More than half of the recipients of Old Age Security benefits are already receiving full or partial GIS benefits. Indeed Canada's public pensions are so heavily weighted toward income-tested benefits that recipients of the maximum CPP retirement benefit are still entitled to $90 per month in

GIS benefits unless they have additional sources of private income. This excessive reliance on income-tested benefits will be accentuated even further by Bill C-131.

We are also concerned that the cap on OAS indexing will contribute to the continuing erosion of the value of OAS benefits compared to average wages and salaries. Since 1964, OAS benefits have declined from approximately twenty per cent of average wages and salaries to approximately 14 per cent. The capping of OAS indexing will contribute to an even further decline in the relative value of the benefits under the program and thus make it even more difficult for working Canadians to maintain their standard of living as they move from work to retirement.

Finally, we are concerned that Bill C-131 does not indicate what will happen to the OAS and GIS programs after 1984. The former Minister of Finance indicated in the budget speech of June 28th that full indexing would be restored in January 1985; but, it is not clear what level of OAS benefits will be indexed. In this regard, there are three options available:

1) the special (1983 and 1984) supplements to GIS could be included in OAS and be indexed; or
2) the special supplement to GIS could be included in GIS on a permanent basis and OAS would be indexed from its December 1984 level; or

3) the special supplements to GIS could lapse and OAS would be indexed from its December 1984 level.

The third option would permanently reduce the minimum income guaranteed to the elderly poor. The second option would permanently increase the role of the income-tested portion of the pension system. In view of the implications of options 2 and 3, we clearly prefer option 1. In any case, the issue of how OAS and GIS will operate after 1984 is so important that Bill C-131 should not be allowed to proceed until this issue is resolved.

No matter how the special GIS supplements are dealt with after 1984, the provisions of Bill C-131 will remain bad fiscal policy and bad pension policy. It seems to us that anyone who wants to support this Bill must be able to give positive answers to two questions:

- what is the justification for imposing what amounts to a tax that only applies to people over 65; and

- how can the provisions of Bill C-131 be reconciled with a humane and rational pension policy?

In our view there are no positive answers to these questions and the Bill should be withdrawn.

Respectfully submitted on behalf
of the Canadian Labour Congress

Dennis McDermott, President

Donald Montgomery, Secretary-Treasurer

Shirley G.E. Carr,
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IMPACT OF BILL C-131 IN 1983 AND 1984

	OLD AGE SECURITY		GUARANTEED INCOME SUPPLEMENT			
			Single		Couple	
	Indexed*	Capped	Indexed	With Special** Supplement	Indexed	With Special** Supplement
Dec. 1982	246.92	246.92	247.89	247.89	191.12	191.12
1983						
Jan-Mar	252.87	250.62	253.87	256.12	195.73	197.98
Apr-June	258.97	254.32	259.99	264.64	200.45	205.10
Jul-Sept	265.22	258.03	266.26	273.45	205.28	212.47
Oct-Dec	271.61	261.74	272.68	282.55	210.23	220.10
Cumulative Reduction		71.88				
1984						
Jan-Mar	276.87	265.01	277.98	289.84	214.31	226.17
Apr-June	282.27	268.28	283.38	297.57	218.48	232.47
Jul-Sept	287.75	271.56	288.88	305.07	222.72	238.91
Oct-Dec	293.34	274.83	294.49	313.00	227.05	245.56
Cumulative Reduction		181.65				

INCOME LIMITS UP TO WHICH GIS IS PAYABLE (ANNUAL AMTS. ROUNDED TO NEAREST $10)

1983	$ 9,460.00	$ 9,530.00	$16,030.00	$16,180.00
1984	10,290.00	10,470.00	17,430.00	17,800.00

*Benefits under existing indexing arrangements assuming rates of inflation of 10% and 8% for the years 1983 and 1984.

** Figures in these columns incorporate the reduction from the level of OAS benefits that would have been paid under existing indexing arrangements.

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